

***United States Court of Appeals
for the Second Circuit***



**BRIEF FOR
APPELLANT**

court copy

DOCKET NO.

76-7082

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

To Be Argued By
Joseph W. Burns

MUNTERS CORPORATION,

Plaintiff-Appellee,

v.

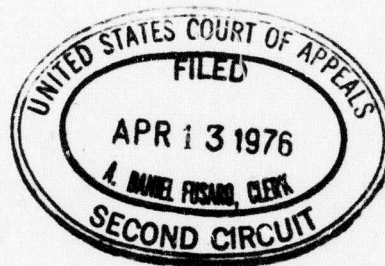
BURGESS INDUSTRIES INCORPORATED,

Defendant-Appellee,

and

BUFFALO FORGE COMPANY,

Defendant-Appellant.



APPEAL FROM AN ORDER OF THE UNITED
STATES DISTRICT COURT FOR THE
SOUTHERN DISTRICT OF NEW YORK
GRANTING A PRELIMINARY INJUNCTION

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UNITED STATES COURT OF APPEALS
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MUNTERS CORPORATION,	:	
Plaintiff-Appellee,	:	
v.	:	Docket No. 76-7082
BURGESS INDUSTRIES INCORPORATED,	:	
Defendant-Appellee,	:	
and	:	
BUFFALO FORGE COMPANY,	:	
Defendant-Appellant.	:	
- - - - -	:	
	x	

APPEAL FROM AN ORDER OF THE UNITED
STATES DISTRICT COURT FOR THE
SOUTHERN DISTRICT OF NEW YORK
GRANTING A PRELIMINARY INJUNCTION

I

PRELIMINARY STATEMENT

This is an appeal from an Order of District Judge Charles H. Tenney entered January 26, 1976, granting a motion of Burgess Industries, Inc. for a preliminary injunction.

On September 19, 1975 Munters Corporation ("Munters") filed a complaint for a declaratory judgment naming Burgess Industries Incorporated ("Burgess") and Buffalo Forge Company ("Buffalo Forge") as defendants. The complaint alleged that

Munters manufactures a patented cross-fluted, corrugated packing material which is suitable for a number of uses. (Compl. ¶9) Munters granted to Buffalo Forge an exclusive sublicense to use and sell (but not to make) the fill material for evaporative cooling applications for gas turbines of a certain size for a limited period. (Compl. ¶10) (App. 6) *

The complaint alleges that Burgess purchases the patented fill material for use in a variety of applications other than the specific "product use area" licensed to Buffalo Forge (Compl. ¶12), but has used the fill in the product use area without authorization from Munters (Compl. ¶13, 15); Burgess contends the sublicense to Buffalo Forge is illegal, and that if Munters refuses to sell it fill for use in the "product use area," Burgess will sue Munters for violation of the antitrust laws. (Compl. ¶15, 16, 17, 20) Burgess has admitted these allegations.

The complaint alleges that Munters requested Burgess to agree not to use the fill for this unauthorized use, but Burgess has refused to do so (Compl. ¶14, 15), and that Buffalo Forge has threatened to sue Munters if it sells fill to Burgess and it is used in Buffalo Forge's exclusive product use area. (Compl. ¶19) Buffalo Forge has admitted these allegations. (App. 7-9, 31-32, 63-65)

Munters requested a declaratory judgment that the sublicense from it to Buffalo Forge was valid and enforceable,

*"App." refers to the Appendix on this Appeal.

and did not violate the antitrust laws of the United States, and that Munters could lawfully demand that Burgess not use Munters patented fill material purchased from Burgess in the product use area exclusively sublicensed to Buffalo Forge. (App. 9-10)

The Burgess answer requested the Court to adjudge that the sublicense agreement is invalid and unenforceable, that Munters and Buffalo Forge have violated the antitrust laws, and that Munters be required to supply the fill on the same terms it is supplied to Buffalo Forge. (App. 32-33)

Burgess filed a motion for a preliminary injunction, supported by an affidavit of Ronald J. Yaeger. The motion requested the Court to order Munters to sell to Burgess immediately Munters fill for use in evaporative coolers connected to gas turbines, even though Munters is prohibited from making such a sale by the license agreement with Buffalo Forge. (App. 38-39)

On December 18, 1975 the District Court heard argument on the Burgess motion. The evidence which had been filed with the Clerk prior to the hearing consisted of the following:

In support of the Burgess motion

- (1) affidavit of Ronald J. Yaeger, a Burgess officer (hereinafter cited as "Yaeger") (App. 41-45)

In opposition to the motion

- (2) affidavit of Robert Jorgensen, a Buffalo Forge employee (hereinafter cited as "Jorgensen") (App. 71-83)

- (3) affidavit of Ronald W. Pokorski, a Buffalo Forge employee (hereinafter cited as "Pokorski") (App. 66-70)
- (4) deposition of Yaeger taken by Buffalo Forge
- (5) Munters' answers to Buffalo Forge interrogatories ("Munters Ans.") (App. 84-92)
- (6) Exhibits marked BF 1 to 56, and B1 and B2

On January 19, 1976, Judge Charles H. Tenney filed a memorandum opinion and decision granting the Burgess motion. On January 26, 1976, the District Court entered an order granting to Burgess a preliminary injunction and requiring it to post security in the sum of \$25,000. (App. 93-105, 106-107)

(1) Basis of the District Court's Decision
Granting the Preliminary Injunction

The only evidence offered by Burgess in support of its motion was the affidavit of its Executive Vice President Roland J. Yaeger. It is undisputed that Munters supplied to Burgess all the Munters fill Burgess ordered for use in evaporative coolers in applications other than gas turbines. In spite of the fact that continuously since the first indication of an interest in Burgess in the fill in April 1973, Munters had advised Burgess that it would not supply the fill for use with gas turbines, Burgess accepted six orders late in 1975 from four customers to supply such coolers in the "product use area."

The District Court granted the preliminary injunction based upon its acceptance of the contention of Burgess that its "good will" would be irreparably injured if it were not permitted to deliver on six orders it had already accepted.

Burgess submitted no facts to substantiate this contention, and the Court accepted the opinion and conclusion in the affidavit of Yaeger.

The sole discussion of what might be described as "facts" in the District Court's memorandum decision is the following:

"If the agreement is upheld Burgess will have to cancel the bids it has already accepted from the four major industrial customers in the market for evaporative air coolers. A denial of Burgess' motion will produce the same effect at present, causing a significant loss of current business and, more importantly, irreparable injury to its goodwill in the industry. Without commenting on the business acumen of Burgess in obligating itself to customers before removing impediments to its supply of resource materials or the possible commercial exigencies behind that decision, it is clear that the likely long-lasting harm to Burgess' goodwill outweighs possible harm to Munters or Buffalo Forge." (App. 101-102)

The District Court did not mention the additional contention of Burgess that it would also lose future business if it could not obtain Munters fill. The Yaeger affidavit stated:

"Unless Munters Corp. is enjoined during the pendency of this action, from refusing to sell its product to Burgess Industries for use in evaporative coolers to be attached to gas turbines, Defendant Burgess Industries will suffer great and irreparable damage in that it will be unable to perform both its existing and its anticipated contractual obligations relating to products which specify the use of Munters media, resulting in great damage to Burgess Industries' reputation, ability to compete, and loss of profits and good will." (App. 44-45)

The District Court granted Burgess the right not only to obtain Munters fill to complete the six coolers

already ordered, but also for any orders it might obtain in the future. The injunction dated January 26, 1976 affirmatively ordered Munters to sell the fill to Burgess without any restriction on its use. (App. 106-107)

The District Court set the amount of the security bond at \$25,000 without considering any evidence at all as to the amount of damages which the injunction might cause Buffalo Forge.

(2) Proceedings Subsequent to the Order Granting the Preliminary Injunction

By letter dated February 3, 1976, counsel for Buffalo Forge stated to the Court below that a decision on whether or not to appeal depended upon the Court setting an early date for trial, as it had indicated at the hearing on December 18, 1975 (Exhibit A attached to affidavit of Joseph W. Burns in support of motion for a stay). In a letter dated February 10, 1976, the District Court advised counsel for Buffalo Forge: "At present, my trial commitments are such that it would be impossible for me to reach this matter for trial in March or April of this year or for that matter in the reasonably foreseeable future." (App. 114, 118)

Counsel for Burgess took the position that the maximum amount of damages to which Burgess would be liable in the event the final decision upholds Buffalo Forge will be the \$25,000 security bond. (App. 119)

In view of these two developments which materially changed the situation both at the time of the hearing and the

date of entry of the order granting the preliminary injunction, Buffalo Forge filed a Notice of Appeal on February 17, 1976.

In order to comply with F.R.A.P. Rule 8(a) Buffalo Forge obtained an order to show cause why a stay of the preliminary injunction should not be granted pending appeal pursuant to Rule 62(c) F.R.Civ.P. and why the provisions relating to security under Rule 65(c) F.R.Civ.P. should not be modified. This motion was supported by an affidavit of Joseph W. Burns, and a second affidavit of Robert Jorgensen. A hearing was held on March 9, 1976, at which the District Court determined to reserve decision on the motion and set the case for trial on March 22nd. (App. 110-128) (Affidavit of Martin J. Neville.)

The trial commenced on March 22nd, and was completed in a day and a half. At the conclusion of the trial the District Court granted the request of Burgess counsel that briefs be limited to whether or not the license from Munters to Buffalo Forge was in and of itself a per se violation of the antitrust laws. The District Court also denied the Buffalo Forge motion for a stay on March 23, 1976. (App. 3 affidavit of Martin J. Neville.)

II

ISSUES PRESENTED

1. Whether the District Court erred in ruling that on the merits there was a serious question which presented fair ground for litigation, in view of the fact that the Supreme Court's decision in General Talking Pictures Corp. v. Western Electric Co., 304 U.S. 175 aff'd 305 U.S. 124 (1938) is controlling in favor of Buffalo Forge on the legal issue.

2. Assuming it was reasonable for the District Court to feel there was a serious question on the merits, did the District Court, in balancing the equities in favor of Burgess under the less stringent standard for preliminary injunctions, commit reversible error in failing to consider the irreparable injury to Buffalo Forge.

3. Whether the District Court seriously abused its discretion in granting a mandatory preliminary injunction wholly disrupting the status quo, and granting Burgess all the relief it could obtain if it prevailed on the merits.

4. Whether the District Court erred in holding, based solely upon the conclusion in an affidavit of a Burgess officer, that the "good will" of Burgess would be damaged, and that the damage would be irreparable, unless Burgess was permitted to solicit future orders.

5. Whether the provision of the Order fixing the security at \$25,000 was erroneous as a matter of law, where the District Court had no evidence at all from which to conclude that amount would be adequate to compensate Buffalo Forge for any damages caused by the preliminary injunction.

III

STATEMENT OF PRINCIPAL FACTS

This point lists the principal facts, but others will be referred to at pertinent sections of the argument.

1. Munters manufactures a patented product used as a media or fill which it sells to Buffalo Forge, Burgess and many other customers.

2. On October 6, 1972 Munters granted to Buffalo an exclusive license to use the patented product in a new field of use. The license required that Buffalo develop a new product - an evaporative cooler for use in gas turbine applications using Munters media. The third WHEREAS clause describes the purpose of developing a "new competitive product."

"WHEREAS, Buffalo has experimented with and intends to experiment further and to develop the application and use of Munters fill as a new competitive product in the Product Use Area and the parties agree that cooperation between said parties is necessary during the period of experimentation, and during such period Buffalo must be assured of a supply of Munters fill and Munters Florida is willing to make it exclusively available to Buffalo in the Product Use Area in the Exclusive Territory for a limited period as hereinafter defined." (App. 12, 13)

3. The license was not to become exclusive until Buffalo established the use of Munters fill as a competitive product.

"ARTICLE II: Grant of License

1. Subject to and to be effective when Buffalo shall have established the use of Munters fill as a competitive product for use in the Product Use Area, Munters Florida grants to Buffalo, under the terms of this Agreement, the exclusive right and sublicense under the Fill Patents to use and sell Munters fill." (App. 14)

4. The first term of the agreement was for a period ending on December 31, 1973. Article 4 provided that the license would become effective "when Buffalo shall have developed the use of the Munters fill as a competitive product." This event would occur when Buffalo had purchased a specified minimum quantity of fill. The exclusive license could be extended for four succeeding two-year terms, provided Buffalo met increasing minimum purchase requirements. App. 15-19)

5. It was Munters' policy to grant an implied use license under its product patents to selected purchasers of its fill in known and established markets in which Munters fill was competitive with other materials. When Buffalo Forge told Munters it had an interest in trying to develop the use of Munters fill as a substitute for materials it was using in its evaporative coolers, and desired an exclusive license for the use of the fill in evaporative coolers for a variety of applications, Munters declined to grant it a broad field of use license. However, it did agree to grant one restricted to evaporative coolers used in specific and limited gas turbine applications. The reasons were that this would open up an entirely new market in the "Product Use Areas" not previously available to Munters, that Munters did not have the technical knowledge to design an evaporative cooler for such use while Buffalo Forge did, that Munters had no experience in that particular market, while Buffalo Forge was well established

there and had contacts with potential customers, and that Munters could not make the financial investment necessary to develop and design a product for entry into a new product market. Also, Buffalo Forge stated it could not undertake the development unless it received an exclusive license for a limited period. Prior to that time, no other company had shown any interest in using Munters fill in this market.

(Munters Ans. 9) (App. 88-90)

6. Until 1972, Buffalo Forge made two (2) broad categories of evaporative coolers. First there are wet cell washers which simply divides the water into droplets and allows them to fall through a chamber. The second have networks of fine fibers, in which the water is spread over networks or pads of fine fibers, medias or fill such as fiberglass, polyester, polyurethane, dacron or metal cells. The purpose of the research was to determine whether Munters media could be used as a substitute for these other media.

(Jorgensen ¶9B, Pokorski ¶1B) (App. 66, 79, 80)

7. Burgess made open-type air washers, polyurethane type, metal-type and Dynel-type for use with gas turbines, depending on the needs of the customer. The evaporative cooler is sold to all industry, not merely to the gas turbine industry. Yaeger testified that the evaporative cooler which uses the Munters fill performs the same function as these other evaporative coolers. They all have special characteristics that lend themselves to certain applications.

(Yaeger 17, 18)

8. Munters fill is competitive with fill made of aspen wood, redwood slats, PVC slats, fiberglass, polyester, polyurethane and other materials such as metal slats.

Among the many other uses for Munters fill are applications in greenhouses, dairies, meat processing plants, food processing plants, tanneries, breweries, distillers, chemical plants, paper mills, synthetic fiber works, textile mills, slaughter houses and poultry processing plants. (App. 85-86)

9. The principal competitors in the sale of evaporative coolers for gas turbines are Burgess and Buffalo Forge. Another competitor is American Air Filter Company. Burgess is a very significant competitor of Buffalo in the sale of several products other than evaporative coolers. In the broad evaporative cooler market, Burgess has been an active competitor in all applications for industrial use as well as with gas turbines. Some companies try to put together a "package" of pieces of equipment to sell to the manufacturer of the turbine, who then delivers the complete turbine to its customer. Burgess endeavors to sell "packages," including the silencer, filter assembly, and evaporative cooler. Buffalo Forge does not offer the package in competition with Burgess. It sells only the evaporative coolers. (Jorgensen ¶10, 11B, Yaeger 39, 42, 43, 88, 95, 123, 124, 127, 134) (App. 82)

10. Buffalo spent over \$128,000.00 in research, development and promotion of the new product during a period of about three (3) years, from April 1971 to April 1974. Buffalo started this work in April, 1971. After the product

was developed, Buffalo published catalogs describing it, and gave seminars to the engineers of the principal customers - General Electric, Westinghouse, and Turbodyne. (Jorgensen, Pokorski) (App. 67, 77, 78)

11. Burgess showed no interest in the use of Munters fill until it was called to Burgess' attention by its customers in April, 1973. When it made inquiry about the fill, Munters informed it in a letter dated April 16, 1973 that Burgess could use the fill for any purpose except for evaporative coolers used with gas turbines, which had been licensed exclusively to Buffalo Forge. (App. 129, 130)

12. Burgess decided at that time, unilaterally and arbitrarily to ignore Munters warning. As it learned of some offer by Buffalo to supply an Aerofil cooler, Burgess offered to make an identical cooler. Burgess did not purchase any Munters fill until January, 1974 during the second term of exclusivity of the license. During 1974 and most of 1975, Burgess sold many evaporative coolers using Munters fill for industrial applications and copying Buffalo's designs, even using Buffalo's confidential engineering bulletins. This use of Munters fill was authorized, as it did not relate to gas turbines. (Yaeger 45, 112, 113, BF-38, BF-39, BF-45) (App. 143)

13. From the very beginning of Burgess contacts with Munters in April, 1973, Munters advised Burgess that Burgess could not use Munters fill in evaporative coolers for gas turbine applications. Before Burgess made the first

purchase of any fill in January, 1974, Munters had given this notice twice - in a letter dated April 16, 1973 (BF-11) and June 29, 1973 (BF-12). This notification was repeated by Munters in letters dated March 25, 1974 (BF-23), June 7, 1974 (BF-24) and December 13, 1974 (BF-25). (App. 148-149)

14. Burgess knew of the license nine months before it made its first purchase of any Munters fill, and two and one-half years before Munters instituted this declaratory judgment action, but never requested any court to determine the legality of the license, or whether Munters had a right to refuse to sell its fill for this particular use.

15. Burgess placed orders with Munters in October and November, 1975 for fill to be used in evaporative coolers for six gas turbine applications, knowing that Munters had refused to fill such orders. It gave to its customers such as Westinghouse and General Electric "save harmless" letters. (App. 42-60, 136, 138, 146 BF-26, BF-31, BF-34)

16. The total sales price of the six evaporative coolers was \$226,257. (App. 146-147) These orders were taken by the Environmental Division, which had a backlog of orders of \$2,851,900 for the fiscal year ending September 30, 1974. Burgess net sales for all products in fiscal 1975 were over \$42,000,000. (BF-4, p. 5)

IV

SUMMARY OF ARGUMENT

A preliminary injunction is an extraordinary remedy which is granted only when certain stringent standards are met, and is not available as a matter of right.

The usual standard places on the moving party the burden to establish (1) it will probably prevail on the merits, (2) it does not have an adequate remedy at law, and (3) it will be irreparably damaged if the preliminary injunction is not granted. This Circuit has established a less stringent alternative standard in which (1) the legal issue raises sufficiently serious questions on the merits making them fair ground for litigation, and (2) balancing the equities decidedly favors the moving party.

The Court below was unable to conclude that Burgess would probably succeed on the merits, so it granted the injunction under its interpretation of the less stringent alternative standard.

Whether or not the Court below erred in holding that the legal issue was fair ground for litigation, it erred in holding that the equities were balanced decidedly in favor of Burgess, and violated the following basic principles governing the granting of preliminary injunctions:

- (1) the court failed to make findings of fact;
- (2) the injunction disturbed the status quo;
- (3) it granted Burgess all the relief it could obtain on the merits;

(4) it was mandatory, not prohibitory; and
(5) it failed to take into consideration
evidence of Burgess' "unclean hands."

Buffalo Forge and Burgess have been competitors in the sale of evaporative coolers for many years. Buffalo Forge obtained from Munters an exclusive license to use its patented fill material in the limited field of evaporative coolers for gas turbine applications. The Court below erred in disrupting the status quo by requiring Munters to sell the fill for use in the area for which Buffalo Forge had an exclusive license.

The license agreement was valid under the Supreme Court decision in General Talking Pictures Corp. v. Western Electric Co., 304 U.S. 175 (1938) and cases which have interpreted that decision. Since that case is controlling, there was no justification for holding that the legal issue was fair ground for litigation - at least for purposes of a preliminary injunction. There were no restrictions at all in the license - it simply granted Buffalo Forge the exclusive right to the use of the fill in the limited field of use. Burgess and Buffalo Forge both had non-exclusive licenses to use the fill in evaporative coolers for any other applications.

The license was a valid exercise of the rights of the patent owner, as the purpose was to have Buffalo Forge invest its capital to develop a new competitive product in a new market where the fill was not used. No company other than Buffalo Forge expressed any interest in developing this product.

Every exclusive patent license necessarily excludes others from use of the patent in the particular field. However, this license did not create any unreasonable restraint of trade or constitute an attempt to monopolize. The market was very small, there was no injury to the public, and there are competitive products actually being offered for sale by both Buffalo Forge and Burgess.

THE DISTRICT COURT VIOLATED BASIC PRINCIPLES
GOVERNING THE GRANT OF PRELIMINARY INJUNCTIONS

This Court is not limited in reviewing the District Court's exercise of discretion, since no hearing was held, and the District Court's decision was based on pleadings and affidavits, and the credibility of testimony is not at stake.

This Court may exercise its discretion and review the papers de novo since this Court is in as good a position as the District Judge to read and interpret the pleadings and affidavits and thus has broader discretion on review. San Filippo v. United Brotherhood of Carpenters and Joiners of America, 525 F.2d 508, 511 (1975); Dopp v. Franklin Nat. Bank, 461 F.2d 873, 879 (1972).

Furthermore, the review is not concerned with the District Court's discretion, but with its violation of the following basic principles governing the grant of preliminary injunctions:

- (1) the District Court failed to make any findings of fact as required by F.R.Civ.P. 52(a);
- (2) the injunction disrupts the status quo;
- (3) the injunction grants to Burgess all the relief it could obtain if it prevailed on the merits;
- (4) the injunction is mandatory, and requires Munters to sell its product to Burgess for a use which it had

refused to sell previously; and

5. The District Court deliberately ignored the evidence that Burgess had "unclean hands."

(1) The District Court Failed to Make
Findings of Fact Pursuant to
F.R.Civ.P. Rule 52(a)

The District Court failed to make findings of fact and conclusions of law required by F.R.Civ.P. Rule 52(a) and no findings of fact appear in the memorandum opinion.

The issue of whether Burgess might suffer irreparable injury was hotly contested by Buffalo Forge. Yet the District Court made no findings of fact on this contested and crucial issue.

"Where the trial court fails to make findings, or to find on a material issue, and an appeal is taken, the appellate court will normally vacate the judgment and remand the action for appropriate findings to be made." (5A Moore's Federal Practice ¶52.06[2])

This alone justifies the Court in granting a stay pending appeal, although this Court does have the power to examine the record to determine whether there is sufficient evidence to support the issuance of the injunction. (Sampson v. Murray (1974) 415 U.S. 61, 86 ftn 58; 94 S.Ct. 937; 39 L.Ed. 2d 166, 185.)

(2) The Preliminary Injunction Disturbed
the Status Quo

Traditionally the purpose of injunctive relief is to preserve the status quo pending determination of the case

on its merits. This Court in United States v. Adler's Creamery, 107 F.2d 987, 990 (2d Cir. 1939) stated:

"The purpose of an injunction pendente lite is to guard against a change in conditions which will hamper or prevent the granting of such relief as may be found proper after a trial on the issues. Its ordinary function is to preserve the status quo and it is to be issued only upon a showing that there would otherwise be danger of irreparable injury." (emphasis supplied)

Similarly in Willheim v. Investors Diversified Services Inc., 303 F.2d 276, 277 (2d Cir. 1962) (Per Curiam) the Court stated:

"A preliminary injunction should be directed towards preserving the status quo, so far as possible, in order that ultimate adjudication may come on a complete record after a full trial which resolves the now disputed issues."

This Court has not discarded the concept of the importance of maintaining the status quo even though it has adopted a less stringent alternative standard under Rule 65. In Danielson v. Local 275, Laborers Int. U. of No. America, 479 F.2d 1033, 1037 (2d Cir. 1973) the Court stated:

"As we have had occasion to point out recently, a basic purpose of a preliminary injunction is to maintain the status quo. Exxon Corp. v. City of New York, 480 F.2d 460 (2d Cir. 1973)..."

Without exception, the entire line of Second Circuit cases that led to the adoption of the alternative standard for preliminary injunctions weighed heavily the consideration that the relief sought therein would maintain the status quo. See Hamilton Watch Co. v. Benrus Watch Co. 296 F.2d 738, 740, (2d Cir. 1953); Unicon Management Corp. v. Koppers Company,

366 F.2d 199 (2d Cir. 1966); Checker Motors Corp. v. Chrysler Corp., 405 F.2d 319, 323 (2d Cir. 1969); Gulf & Western Indus., Inc. v. Great A. & P. Tea Co., Inc., 476 F.2d 687 (2d Cir. 1973).

In Tanner Motor Livery, Ltd. v. Avis, Inc., 316 F.2d 804, 809 (9th Cir. 1963) cert. den. 375 U.S. 821, the court stated:

"It has been said, and we agree that: 'the status quo is the last uncontested status which preceded the pending controversy.' (Westinghouse Elec. Corp. v. Free Serving Mch. Co., 7th Cir. 1958, 256 F.2d 806, 808). ***Here that status quo is that Tanner was, and had been for many years, an Avis licensee... Tanner was endeavoring to continue to so operate. Avis sought to change that status; Judge Clarke's order grants it what it seeks. We are not to be understood as stating that the foregoing principles are hard and fast rules, to be rigidly applied to every case regardless of the facts. The infinite variety of situations in which a court of equity may be called upon for interlocutory injunctive relief requires that the court have considerable discretion in fashioning such relief. But the court's discretion is neither arbitrary nor unlimited; it is to be guided by the principles long established in courts of equity, and a departure from those principles is justified only where the practicalities of the problem with which the court is faced require it. We can find no such requirement here... The issuance of Judge Clarke's order was an abuse of discretion." (emphasis supplied)

The status at the time the injunction was granted was that in 1972 Munters had granted to Buffalo Forge the exclusive right to use Munters fill in evaporative coolers for gas turbine applications. From the very first time Burgess contacted Munters in April, 1973, Burgess was told it could use the Munters fill for any evaporative coolers except with gas turbines. This warning and notification was given to

Burgess in writing on five occasions in 1973 and 1974.

(Exhibits BF-11, BF-12, BF-23, BF-24, and BF-25) (App. 148-150) The status was that Munters refused to sell the fill to Burgess. The District Court ordered Munters to sell without restriction, thus disrupting the status quo.

Burgess acknowledges the right of Munters to grant use licenses, and had in fact a non-exclusive license to use the fill for evaporative coolers in all applications except for the limited gas turbine applications license exclusively to Buffalo Forge. The Yaeger affidavit claims Burgess had a "free license" in spite of the letter from Munters dated December 13, 1974 which specifically (for the fifth time) described the limitation. (App. 41, 42, 136, 137) Munters had the right under General Talking Pictures to sue Burgess for infringement for the unauthorized use. However, there was no need to do that, as Munters could simply decline to sell unless Burgess agreed not to infringe. The District Court's mandatory injunction in effect prohibits Burgess from suing for infringement, and orders Munters to in effect grant Burgess a license use the fill in gas turbine applications. This was error in view of the statement in SCM Corporation v. Xerox Corporation 507 F.2d 358 (2d Cir. 1974): "The patent relief sought certainly does not preserve the status quo, which is the normal function of the preliminary injunction." (p. 361)

In Knapp v. Walden, 367 F. Supp. 385, 388 (S.D.N.Y. 1973) the court refused to issue a preliminary injunction stating:

"Denial of injunctive relief will maintain the status quo at the expense of delaying the possible vindication of plaintiff's rights...on the other hand, granting preliminary injunctive relief will in effect give plaintiff the final relief she seeks... Such a result would be a misuse of the preliminary injunction which is intended 'to guard against a change in conditions which will hamper or prevent the granting of such relief as may be found proper after the trial of the issues.' United States v. Adler's Creamery, 107 F.2d 987, 990, (2d Cir. 1939) As Judge Pollack observed in Heldman v. United States Lawn Tennis Association, 354 F. Supp. 1241, 1249 (S.D.N.Y. 1973): 'It is improper to issue a preliminary injunction where such a grant would effectively provide all the relief sought in the complaint.'"

Only in an extraordinary situation should there be a departure from the salutary rule that the status quo is the last uncontested status which preceded the pending controversy. See National Association of Letter Carriers v. Sombrotto, 449 F.2d 915 921 (2d Cir. 1971) wherein the Second Circuit directed an injunction to issue in a labor situation in which without the injunction, a local union "could turn the statutory scheme for handling the trusteeship problem on its head." (at p. 920)

(3) The Injunction Grants to Burgess all the Relief it Could Obtain if it Prevailed on the Merits

In this declaratory judgment action the parties whose interests are at stake are Burgess and Buffalo Forge, who are competitors. While Munters is vigorously defending the validity of the license agreement with Buffalo Forge, it will not suffer financially whichever way the Court decides on the merits. Buffalo Forge has succeeded in creating the new gas

turbine market for Munters media in evaporative coolers, so it will sell the same amounts whether it is purchased by Buffalo Forge or Burgess. The issue is that if Burgess succeeds in having the license agreement declared invalid, Munters would be free (although not required) to sell the fill to Burgess. Thus, the preliminary injunction grants to Burgess all the relief it could obtain if it prevailed on the merits - even though the issue of the merits has not been decided. It was error to grant such a preliminary injunction. United States v. Adler's Creamery, supra, Knapp v. Walden, supra.

(4) The Injunction was Mandatory not Prohibitory

The injunction was mandatory, as it requires Munters to sell its product to Burgess for a use which it had refused to sell previously.

In Clune v. Publisher's Asso. of New York City, 214 F. Supp. 520, 531 (S.D.N.Y. 1963), aff'd (per curiam) 314 F.2d 343 (2d Cir. 1963), the Court stated:

"It is elementary that a preliminary injunction is designed to preserve the subject in controversy in its then existing condition. It is also equally well known that courts are more reluctant to grant a mandatory injunction than a prohibitory one and that generally an injunction will not lie except in prohibitory form. Such mandatory injunctions, however, are not granted unless extreme or very serious damage will result and are not issued in doubtful cases or where the injury complained of is capable of compensation in damages." (emphasis supplied)

More recently in Greenhouse v. Greco, 368 F. Supp. 736, 737 (W.D. La. 1973) the court there stated:

"We do not intend to develop in detail the subject

of mandatory injunctions, but it is well established that the requirements for issuing a mandatory injunction are much stricter than the very strict grounds required for the issuance of a prohibitory injunction, Volume II, Wright & Miller, Federal Practice & Procedure, Sec. 2942, at p. 733."

Since the District Court did not find that Burgess had a reasonable probability of success, there was no justification for a mandatory injunction.

- (5) The District Court failed to take into consideration the evidence that Burgess had "unclean hands."

Buffalo Forge contended that Burgess was guilty of laches and in effect "unclean hands." The District Court erred in declining to give weight to this issue. The Court's decision of January 19, 1976 recites:

"Without commenting on the business acumen of Burgess in obligating itself to customers before removing impediments to its supply of resource materials or the possible commercial exigencies behind that decision..." (App. 101-102)

Buffalo Forge submitted uncontradicted evidence that Burgess was initially told by Munters it could not use the fill in gas turbine intake coolers, that Burgess solicited orders in deliberate disregard of the Munters warning, and that Burgess went so far as to give customers such as Westinghouse "hold harmless" letters. (App. 129-138) The District Court violated basic principles in placing its seal of approval upon these practices of Burgess by granting to it injunctive relief.

It is a well-established rule in equity that a party may not apply for either a preliminary or a permanent

injunction if he is guilty of delay (43 C.J.S. Injunctions §171).

If Burgess considered that this license and Munters' letters to it were any kind of a restraint on it, Burgess could have commenced a lawsuit, declaratory judgment or some other form of action long ago.

In Heldman v. United States Lawn Tennis Association, 354 F. Supp. 1241, 1249 (S.D.N.Y. 1973), the Court stated:

"Consideration of whether an injunction should issue necessarily begins with the proposition that injunctive relief is an extraordinary remedy.*** This remedy should not be granted without the most searching and careful exercise of the discretion of the Court. Injunctive relief in advance of the trial is available only to the plaintiff who cannot be adequately compensated by money damages and who comes before the Court free of any inequitable conduct on [its] part with respect to the matters in dispute while the so-called clean hands doctrine may provide no defense to an antitrust violation when the merits are being decided, at this stage this equitable doctrine may well be applied..." (emphasis supplied)

* * *

"The evidence gives substantial indication of violation of fiduciary duties of good faith and fair dealing...This conduct invokes the 'clean hands' doctrine as a supporting ground for denial to the plaintiff of a provisional injunction."

The Yaeger affidavit made several statements which are completely inaccurate, and others which are misleading.

On the first page Yaeger stated:

"Until the controversy which is the subject of this declaratory judgment action arose, Burgess Industries' management had thought it could buy and use Munters media for any purpose, as stated in Munters Corporation's price list, a copy of the most current price list being attached to this Affidavit as Appendix 1. Attention

is directed to the paragraph entitled 'Patent Notice,' which states essentially that the purchase of any Munters media product carries with it a free patent right to use said product in all areas of the world except Scandanavia."

The first time Burgess made an inquiry to Munters in April, 1973 Munters informed Burgess it gave an exclusive license to Buffalo. The reaction of Burgess to this was so great that the word "Disaster" was written alongside this statement. (App. 130) Four times thereafter this statement was repeated by Munters in letters. (App. 131-137) There is no basis for stating to this Court that Burgess believed the statement on the price list granted it a free license to make coolers for gas turbines in face of the specific statements to the contrary by Munters. (App. 148-150)

On page two Yaeger stated that most of its customers specify Munters Media. He fails to state that for years General Electric has dealt mainly with Buffalo, while Westinghouse has dealt with Westinghouse, and that Burgess and Buffalo have attempted to get business from each other's principal customer.

The statement that there is no known material which can be substituted for Munters fill is misleading. It is like saying nothing can be substituted for a Chevrolet when a customer specifies a Chevrolet. But the antitrust law is concerned with substitute or alternative products performing the same function. The record shows that Buffalo developed the use of the Munters fill as a media to compete with fiberglass, Dynel, polyurethane, and metal, all of which are substitutes for Munters fill in evaporative coolers.

Not only did the District Court violate these basic principles, but the moving papers were inadequate to support granting the motion. The only documentation submitted in support of the motion was the affidavit of Ronald I. Yaeger. This was woefully lacking in statements of facts to justify a court exercising its equity powers. Rather than setting forth facts, it contains nothing but conclusions and opinions of Mr. Yaeger, an interested party. The few documents attached to the affidavit fail to support the statements for which they were offered.

The affidavit failed to mention the license agreement from Munters to Buffalo Forge, and made no reference to any facts relating to the license, and failed to provide any basis for the court to conclude that it is probably illegal, and should be ignored, just as Burgess has ignored it. In fact, the affidavit was "misleading" as it contended it relied upon the statement in the Munters Price List Appendix One as granting Burgess a license to make the very products which Yaeger knew Munters told him Burgess could not make.

The affidavit failed to state any facts about the effect of an injunction on Buffalo, or show why on balance Burgess would be hurt more than Buffalo.

In summary, in view of the facts established by admissions in Burgess' answer, that Burgess knew there is a license agreement between Munters and Buffalo, that it had already ignored Munters' warnings and made an unauthorized use of the fill, and that Munters has told Burgess it will not

fill the orders, there was no showing that there is a likelihood of success, that damages would not be adequate if it should succeed, or that there is necessity for changing the status quo.

The violations of these five basic principles are sufficient grounds by themselves to justify this Court in vacating and revising the order granting the preliminary injunction. Nevertheless, Buffalo Forge will demonstrate other errors requiring a reversal.

VI

THE RECORD CONTAINS NO VALID BASIS FOR THE HOLDING THAT THE "GOOD WILL" OF BURGESS WOULD BE IRREPARABLY INJURED

Buffalo Forge contends that there was no evidence or factual basis to support the District Court's holding that Burgess' good will would be irreparably injured. The following facts stated in summary form support this contention.

1. The facts described above under "unclean hands" demonstrate that the District Court was not justified in basing its conclusions of injury to Burgess' "good will" upon Yaeger's affidavit.

2. Burgess' contention was based on six orders which it had accepted in spite of having been told specifically by Munters that it would not deliver Munters fill for these orders. Of the total price of \$226,257.00 for the six

orders all but \$28,265.00 was for Westinghouse and General Electric. (App. 120-121)

3. All of Burgess' customers had been given "save harmless" letters, all knew of the Buffalo Forge exclusive license, and all knew of the dispute and lawsuit at the time the orders were placed. There is no way Burgess' good will could be injured by failing to fill the orders as the customers knew Burgess might not be able to fill them. There would be no inconvenience to the customers if Burgess did not supply evaporative coolers with Munters fill as they knew they could get those coolers from Buffalo Forge. (App. 125)

4. The two major customers for these coolers are Westinghouse and General Electric. There is no way Burgess could lose any good will by failing to fill these orders for Westinghouse. Burgess had had Westinghouse business "locked up" for years. Buffalo Forge has never been able to sell a cooler to Westinghouse. (App. 122)

5. The General Electric situation is the reverse of Westinghouse. Here Buffalo Forge is the preferred supplier. The only reason Burgess received the two orders from GE is because Buffalo Forge has been on strike for several months. (App. 123-124)

Injury to "good will" or "reputation" is not always considered to be of the "irreparable" nature required to entitle a party to a preliminary injunction and is not here. In Penthouse Internat'l, Ltd. v. Playboy Ent., Inc. 392 F. Supp. 257, 261 (S.D.N.Y. 1974) the court denied preliminary injunctive relief stating:

"Despite the claims of plaintiff's counsel, the voluminous materials submitted to the court reveal no showing of irreparable injury. Though injury to reputation or good will is often viewed as irreparable, such injury is not always irreparable. The authorities cited by the plaintiff do not lay down a per se rule as to the irreparability of injury to reputation but merely point out that such injury 'often is viewed as irreparable,' 11 C. Wright & A. Miller, Federal Practice and Procedure §2948 at p. 439 (1973), or 'may' be irreparable, Cutler-Hammer, Inc. v. Universal Relay Corp., 285 F. Supp. 636, 639 (S.D.N.Y. 1963)." (emphasis supplied)

In Sampson v. Murray, supra., the Supreme Court stated in reversing an order granting a preliminary injunction:

"Assuming for the purpose of discussion that respondent had made a satisfactory showing of loss of income and had supported the claim that her reputation would be damaged as a result of the challenged agency action, we think the showing falls far short of the type of irreparable injury which is a necessary predicate to the issuance of a temporary injunction in this type of case." (at p. 91)

In the instant case the District Court relied solely upon the conclusions in the Yaeger affidavit, heard no witnesses on the issue of irreparable injury, disregarded the proof by Buffalo Forge attacking the credibility of Yaeger, and failed to consider documentary evidence from Burgess' files contradicting Yaeger's conclusions. The situation is very similar to the Sampson case, where the Supreme Court stated:

"Yet the record before us indicates that no witnesses were heard on the issue of irreparable injury, that respondent's complaint was not verified, and that the affidavit she submitted to the District Court did not touch in any way upon considerations relevant to irreparable injury. We are therefore somewhat puzzled about the basis for the District Court's conclusion that respondent 'may suffer immediate and irreparable injury.'" (at p. 88)

VII

THE DISTRICT COURT FAILED TO CONSIDER
THE IRREPARABLE DAMAGE THE PRELIMINARY
INJUNCTION WOULD CAUSE BUFFALO FORGE

In balancing of the equities the District Court gave no consideration at all to the possible damage to the good will of Buffalo Forge. If the District Court applied to Buffalo Forge the theory under which it concluded Burgess' good will would be irreparably damaged, it would have been compelled to conclude that the good will of Buffalo Forge would be even more irreparably damaged. Buffalo Forge had built up a reputation as the "Cadillac of the industry." It spent thousands upon thousands of dollars in development and research, seminars, plant tours, and sales efforts to demonstrate to customers that it had built "a better mousetrap." Now the District Court has destroyed the exclusive license and granted to Burgess the right to copy Buffalo Forge's "better mousetrap." This irreparably damages the reputation and good will of Buffalo Forge as it can no longer claim it has the better product. Burgess contended that its "good will" was injured unless it could obtain and freely use Munters fill. Buffalo Forge has advised its customers that it had an exclusive license. Is the prestige and goodwill of Buffalo Forge less significant than than of Burgess? (App. 125)

The Preliminary Injunction Has Irreparably
Damaged Buffalo Forge In Other Ways.

1. The preliminary injunction will at the very least deprive Buffalo Forge of a substantial period of exclusivity, and may destroy its rights under the license. The exclusive license is for successive two-year periods. Buffalo Forge is required to purchase minimum quantities of Munters fill during 1976 and 1977, or to pay a penalty, in order to extend the license for two more years. Granting Burgess the right to take away Buffalo Forge customers cuts into its sales, and therefore its volume of purchases, so it will be forced to make penalty payments or forfeit the exclusive license. (App. 126)

The underlying issue of this case is the validity of a patent license provision - the exclusive field of use granted conditionally to Buffalo Forge. A patent has a fixed and definite term by which it recognizes a lawful monopoly for the holder and licensees for 17 years. Time is "of the essence" in the resolution of the patent dispute here since the longer there is a preliminary injunction in effect - the shorter remains the statutory protected period for the patent holder and licensee to receive the benefits conferred by the patent. This is part of the irreparable injury suffered by Buffalo Forge as a result of the preliminary injunction. In fact, here the Buffalo Forge license is not for the life of the patent, but for successive two-year periods, each dependent upon Buffalo Forge fulfilling specific conditions.

Certainly if Buffalo Forge is successful in this action the courts cannot extend the period of exclusivity in the license to make up for the loss suffered during the period of the injunction pendente lite.

It must be remembered that there are apparently only two companies interested in using Munters Fill in connection with evaporative coolers - Burgess and Buffalo Forge. The advantage of the patent license is wholly lost to Buffalo Forge where its competitor is permitted to use Munters Fill in the area of exclusivity under the injunction.

Is the fact that Buffalo Forge devoted its energies to developing a wholly new area of use of Munters Fill and in developing what must be a superior product (if Burgess' contentions are correct) not entitled to consideration? It is submitted that this is also a factor to be considered. Should the Courts reward a "copier" at the expense of an innovator?

In San Filippo v. United Brotherhood of Carpenters and Joiners of America, 525 F.2d 508, 512 (2d Cir. 1975), Judge Meskill stated:

"This Court has recognized that 'irreparable injury' exists if there is a probable danger that the right may be defeated unless an injunction is issued. E.g. American Mercury v. Kiely, 19 F.2d 295 (2d Cir., 1927)."

Here it is clear that the rights of Buffalo Forge under the license will be defeated while the preliminary injunction is in effect.

2. The first Jorgensen affidavit, dated December 12, 1975, describes Buffalo Forge's investment of \$128,000. in developing the new cooler for the market. By granting Burgess the right to use Munters fill, the possibility of Buffalo Forge obtaining a fair return on this investment has been practically destroyed. (App. 126)

3. It took Buffalo Forge two and a half years, from the middle of 1972 until the beginning of 1975 to convince the market place that its Aerofil cooler using Munters fill was "the better mousetrap." The preliminary injunction destroys the momentum Buffalo Forge had developed, just as it was making progress in competing for customers like Westinghouse. It will be difficult to calculate or measure this damage, therefore it is irreparable. (App. 126) See Danielson v. Local 275, Laborers Union, 479 F.2d 1033, 1037 (2d Cir. 1973) to the effect that "irreparable injury is suffered where monetary damages are difficult to ascertain or are inadequate."

4. The District Court has given to Burgess an unlawfully monopolistic position, a competitive advantage over Buffalo Forge. The Yaeger affidavit claimed that if it could not sell coolers with Munters media it would lose sales of other equipment it sells with coolers, i.e. filters and silencers. Burgess sells a "package" consisting of (a) an evaporative cooler, (b) a filter, (c) a filter house, and (d) silencers. Since Buffalo Forges does not sell filters or silencers, and does not sell any "package" it

depends upon the quality of its cooler to obtain business. Now the District Court has granted Burgess the "legal" right to copy the Buffalo Forge cooler and sell a package, which gives Burgess a competitive advantage over Buffalo Forge. (App. 44, 124-127)

In American Brands, Inc. v. Playgirl, Inc. 498 F.2d 947, 950 (2d Cir. 1974) Judge Mulligan applied the alternative test on a preliminary injunction motion and denied the requested injunctive relief. He stated:

"American has further failed to clearly establish that it will probably succeed on the merits. The trial court commented that it came close, but this is not enough absent a heavy tipping of the equities in its favor." (emphasis supplied)

There is present no heavy tipping of the equities in favor of Burgess. Regardless of whether or not the injury to Burgess may or may not be considered to be irreparable with respect to orders received by it and as to which it has been permitted by the injunction to purchase Munters Fill, it does not follow that Burgess will be irreparably injured as to orders it has not yet taken. And as to those past orders, the customers of Burgess knew about the existing patent license with Buffalo Forge. (App. 120-125, 128)

In Heldman v. United States Lawn Tennis Association, supra, the court stated:

"These variables are dependent. If the plaintiffs for example, can demonstrate a great probability of ultimate success on the merits, then the severity of harm which need be shown might decrease. But where

the injury to defendants produced by an injunction would be great, the plaintiffs must demonstrate more persuasively the likelihood of irreparable injury and of success on the merits at trial."
(at p. 1250) (emphasis supplied)

Heldman was cited with approval by this Court in Columbia Pictures Industries, Inc. v. American Broadcasting Companies, Inc., 501 F.2d 894, (2d Cir. 1974).

The Third Circuit in Delaware River Port Auth. v. Transamerica Trailer Transport Inc., 501 F.2d 917, 924 (3d Cir. 1974), stated in reversing a preliminary injunction issued by the district court:

"We believe that when considerable injury will result from either the grant or denial or a preliminary injunction, these factors to some extent cancel each other and greater significance must be placed upon the likelihood that each party will ultimately succeed on the merits of the litigation."
(emphasis supplied)

VIII

THE PROBABILITY OF SUCCESS FAVORED BUFFALO FORGE AS A MATTER OF LAW

This Court has recognized two different standards either of which may be applied by a District Court in considering a motion for a preliminary injunction. The alternative standard is considered less stringent than the usual standard. In its decision the Court below used the less stringent alternative standard enunciated by the Second Circuit in Columbia Pictures Industries, Inc. v. American Broadcasting Companies, Inc. 501 F.2d 894, 897 (2d Cir. 1974). (App. 97)

The District Court was unable to find any basis for

holding that there was a reasonable probability of success favoring Burgess, and concluded that "the questions raised are serious enough to present fair ground for litigation, in accordance with the alternate standard." (App. 99) But in the record before the Court when it granted the preliminary injunction, the likelihood of success favored Buffalo Forge as a matter of law.

(1) "Field of Use" Restrictions in
Patent Licenses are Valid

Certainly the resolution of this controversy starts, and, as shall be demonstrated, ends with the decision of the Supreme Court in General Talking Pictures Corporation v. Western Electric Company, supra, and decisions which followed it.

Munters and Buffalo Forge contended that the sublicense was a valid "field of use" agreement under the law established by the Supreme Court in General Talking Pictures. Burgess makes the flat, but unsubstantiated assertion that all exclusive field of use licenses are invalid which involve the sale of a patented product. Burgess is not contesting the right of Munters to license the "use" of its fill. In fact, the Yaeger affidavit states that Burgess considered it had a "free license." Since the exclusive license is not in Burgess' interest, it wishes to eliminate from the patent laws any patent owner's right to grant an exclusive "use" license. In effect, Burgess wants the Court to overrule General Talking Pictures. It contends that the agreement is a per se violation of the antitrust laws (App. 98).

The District Court stated that one of the questions requiring further deliberation was whether the agreement between Munters and Buffalo Forge characterized as a patent sublicense, in fact represents a valid exercise of the monopoly power by a patent licensee, namely a field of use restriction (App. 101). In view of the controlling decision of General Talking Pictures, for purposes of a preliminary injunction, the District Court was required to find that the probability of success favored Buffalo Forge. If the Court below thought it should be overruled, it cited no reason why it thought so. In the absence of stating reasons why it should not control, there has been an abuse of discretion and a clear-cut mistake of law to the great detriment of Buffalo Forge.

Since the General Talking Pictures case and decisions following it as a precedent completely undermine the contentions of Burgess, that decision will be discussed at some length. Decisions prior to those of the Supreme Court provide background for a more complete understanding of the two opinions by the Supreme Court.

The controversy was first decided in an action entitled Western Electric Co., Inc., et. al. v. General Talking Pictures Corporation, 16 F. Supp. 293 (S.D.N.Y. 1936). Plaintiff A. T. & T. was the owner of the several patents involved. It licensed Western Electric Company and other companies as to all rights under or arising from said patents relating to the manufacture and use of the patented

devices. The petition alleged that the defendant, General Talking Pictures ("CTP"), without a license, illegally made, sold and used in the U. S. the inventions covered.

The major controversy concerned the legal effect of the sale to GTP of the amplifying devices made by a sublicensee of the plaintiffs which held a license to make and sell to certain classes of purchasers only as set forth in the license. The devices produced by GTP bore a notice of the restriction. GTP's position was that with the sale by the sublicensee, the devices became the absolute property of the purchaser, free from any restriction.

The license agreement defined certain fields of use - amateur reception, experimental reception and broadcast reception.

The plaintiffs contended that the fact that title passes did not eliminate the restriction as to use. GTP, on the other hand, argued that so long as a sale was involved any effort by the plaintiffs to control the use of the patented device disappeared.

GTP relied first upon, among others, Adams v. Burke, 17 Wall (84 U.S.) 453, 21 L. Ed. 700 (As did the defendant Burgess here). The Court clearly distinguished it:

"Adams v. Burke,...and Hobbie v. Jennison, 149 U.S. 355, 13 S. Ct. 879, 881, 37 L. Ed. 766, involve the rights of assignees of the respective patents to manufacture and sell within their specified territories, although the patented articles were used elsewhere.

It did not appear that restrictions as to the place of use were imparted into the relation of the parties." (emphasis supplied)

GTP also relied upon the price-fixing cases reviewed in U.S. v. General Electric Co., 277 U.S. 476, 47 S. Ct. 192, 198, 71 L. Ed. 362 (Also relied upon here by Burgess). The District Court distinguished these, relying upon the U.S. v. General Electric Co. decision that such cases "really are only instances of the principle of Adams v. Burke...that a patentee may not attach to the article made by him a condition running with the article as to the price to be paid for the article." (at p. 298.

Finally, GTP relied upon Motion Picture Patents Company v. Universal Films Manufacturing Company, 243 U.S. 502, 37 S. Ct. 416, 417, 61 L. Ed. 871. The Court distinguished it stating:

"The Court did not decide the issue upon the ground that title had passed to the machines and therefore their use was not subject to any restriction imposed by the patentee, but for the reason quoted; namely that the patent could not be used as an instrument of oppression to project its monopoly so as to cover unpatented things." (at p. 299)

The District Court concluded with respect to the issue:

"It results from the foregoing cases that the mere fact of sale by the licensee...to the defendant did not deprive the plaintiffs of their rights to exclude the defendant from the fields of operation and distribution of the patented device which the plaintiffs have reserved, according to the terms of the license granted to the [sublicensee] to the defendant's actual knowledge." (emphasis supplied) (at p. 300)

On appeal the issue was thoroughly reviewed by the Second Circuit Court of Appeals in Westinghouse Electric Company, Inc. et. al. v. General Talking Pictures Corporation, 91 F. 2d 922, 928 (CCA 2nd 1937). This Court restated the issue as "[t]he question presented is whether the restriction is binding upon the appellant as a purchaser from the licensee." After discussing cases in which certain restrictions were held to be improper, the Court stated:

"The holdings of these cases are not necessarily controlling on the point here at issue and could rest on the valid distinction that even under the patent law the monopoly of use, though granted by the statute in unqualified terms, is subject to limitations as to the kind of restrictions which may lawfully be imposed. A policy preventing control of resale prices and an extension of monopoly to unpatented materials would have nothing to do with the patentee's expressed desire, known to the purchaser, to keep the commercial field within its exclusive dominion."

Before the Supreme Court on petition for a writ of certiorari, GTP tried to strengthen its case by arguing that the sublicensee knew that GTP was going to use the device outside of the restricted field of use at the time of sale to GTP.

The Supreme Court affirmed stating:

"Patent owners may grant licenses extending to all uses or limited to use in a defined field. [citing cases] Unquestionably, the owner of a patent may grant licenses to manufacture, use or sell upon conditions not inconsistent with the scope of the monopoly. [citing cases] There is here no attempt on the part of the patent owner to extend the scope of the monopoly beyond that contemplated by the patent statute." (304 U.S. at p. 181)

The dissent by Justice Black did not question the right of the patentee to license a patent for various uses. Rather, it was concerned with the right of a subsequent purchaser to purchase from a licensee free of the use restriction. He said:

"A license to sell a widely used merchantable chattel must be as to prospective purchasers [from the licensee] - if anything - a transfer of the patentee's entire right to sell; it cannot - as to non-contracting parties restrict the use of ordinary articles of purchase bought on the open market." (304 U.S. at p. 186) (emphasis supplied)

It is important to note the distinction between purchases from a licensee or sublicense, and purchases further down the line where the patented article has passed into the hands of a purchaser "in the ordinary channels of trade." Justice Black contended that neither sale could be restricted. On rehearing the majority reaffirmed its holding that a direct purchaser could be restricted, and specifically declined to pass on purchases in the ordinary channels of trade.

It is clear from Justice Brandeis' opinion that the Buffalo Forge license was valid. (305 U.S. pp. 126-127) What Burgess is really complaining about is not any restrictions in the Buffalo Forge license, but Munters' refusal to grant Burgess a license in the gas turbine field. Of course, the reason is that Munters has already granted the exclusive right in that limited field to Buffalo Forge. Buffalo Forge and Burgess both had specific free licenses to use the fill in evaporative coolers for any use except with gas turbines.

There is no question but that Burgess is several steps closer to the patent owner than GTP, who purchased from a sublicensee. Burgess in fact purchased from the patentee with knowledge of the exclusive license in favor of Buffalo Forge as to use of Munters fill in gas turbine engine applications. Whatever may be the policy rationale that may favor an end to patent license use restrictions as to ordinary buyers without knowledge of the restrictions is not applicable here.

And it should be noted with care the emphasis placed by the Supreme Court upon the fact that the sale to GTP was in fact not an authorized sale under the terms of the license agreement to the sublicensee.

The facts in this case are in no way similar to those in United States v. Univis Lens Co., Inc., et al., 316 U.S. 241 (1942) (relied upon by Burgess), where the Supreme Court held that the sale of the patented product exhausted the monopoly in that article, and the patentee could not thereafter control the use or disposition of the article. The situation was entirely different from General Talking Pictures, decided four years earlier. This difference was readily apparent in the many decisions since General Talking Pictures which have upheld field of use licenses.

Armstrong v. Motorola, Inc., 374 F. 2d 764, 774 (7th Cir. 1967) involved an asserted defense of patent misuse based upon patent license restrictions as to the class of customers to whom manufacturer-licensees could sell. The Court stated:

"Motorola has stated no authority for the proposition that unlawful license restrictions protect a non-licensee (such as Motorola) from infringement liability. However, under General Talking Pictures Corp. v. Westinghouse Electric Co.,..., the license restrictions were lawful.

* * *

Motorola's analysis of later cases has not convinced us that the General Talking Pictures case is no longer good law.

* * *

The principle authority advanced by Motorola is United States v. Univis Lens Co.,..., but that was a Sherman Act case in which the patentee had been using his patent to achieve resale price maintenance and therefore the case is not in point.⁴" (at pp. 774-775)

Footnote 4 states:

"Motorola's reply brief relies on Chicago Metallic Manufacturing Co. v. Edward Kalzinger Co., 139 F. 2d 291, 293 (7th Cir. 1943), affirmed, 329 U.S. 394, 67 S. Ct. 416, 91 L. ed. 374, but there as in Univis Lens Co., the license agreement carried a provision for price-fixing, as did the licenses in Philad Co. v. Lechler Laboratories, Inc., 107 F. 2d 747 (2nd Cir. 1939). Also this Court did not pass upon the validity of the Katzinger patents."

Both the First and Seventh Circuits have upheld a license which authorized the manufacture of radio and television sets incorporating a patented invention, and

requiring a notice restricting sets to home, educational, or private use. Hazelton Research, Inc. v. Admiral Corp. 183 F. 2d 953 (7th Cir. 1950), cert. den. 340 U.S. 896; Automatic Radio Mfg. Co., Inc. v. Hazelton Research, Inc. 176 F. 2d 799 (1940) aff'd on other grounds 339 U.S. 827 (1950). A. & E. Plastik Pak Co., Inc. v. Monsanto Co. 396 F. 2d 710 (9th Cir. 1968) held, relying on the analogy in General Talking Pictures, supra, that trade secrets or know-how may be licensed for a restricted use. United States v. Birdsboro Steel Foundry & Mach. Co. 139 F. Supp. 244 (W.D. Pa. 1956) held that there was no misuse in the exclusive cross license of blocking patents where the license to make the patented product limited sales to all customers except those exclusively served by licensor. Benger Laboratories, Ltd. v. R. K. Laros Company 209 F. Supp. 639 (E.D. Pa. 1962), aff'd. per curiam 317 F. 2d 455 (3rd Cir. 1963) cert. den. 375 U.S. 853 (1963) held there was no misuse where a first license to manufacture a patented drug limited the sale to veterinary fields while a second license to manufacture the drug limited the sale to the human field. Lanova Corporation v. Atlas Imperial Diesel Engine Co., 75 USPQ 225 (Sup. Ct. Del. 1947) approved a license restriction permitting the right to manufacture patented engines, but of a small size only.

In Extractol Process, Ltd. v. Hiram Walker & Sons, Inc., 153 F. 2d 264 (7th Cir. 1946), suit was brought for

patent infringement based on later sale of the machine covered by the patents in alleged violation of the license agreement. The Court said at p. 266:

"Most commonly described as falling within the complete control of said patented article are: (a) the right to make or manufacture said article. Patentee could make it himself and keep out all others. He could grant the right to make the article but limit the number to be thus made. He could restrict the place where they were to be made and the field for which the maker could make them."

And at page 268:

"He may make one licensee exclusive in one field and grant to another licensee an exclusive license in another industrial field. This is settled law. It owes its existence to statutes enacted pursuant to authority expressly granted to Congress by the Federal Constitution. These rights should be neither enlarged nor restricted by judicial holdings."

Turner Glass Corporation v. Harford-Empire Co., 173 F. 2d 49 (7th Cir. 1949) held that a license limiting the use of a leased patented machine to make only a particular type of glassware was not a per se antitrust violation. Deering, Milliken & Co. v. Temp-Resisto Corporation, 160 F. Supp. 463 (S.D.N.Y. 1958) upheld a license restriction limiting the right to use a patented process only when treating fabrics to be sold in apparel, bed covering, glove and footwear field. Sperry Products, Inc. v. Aluminum Company of America 171 F. Supp. 901 (N.D. Ohio 1959) held there was no misuse to lease a patented device for use only in detecting metal flaws in rolling stock, and licensor retained the exclusive right for rail testing. Barr Rubber Products Co.

v. Sun Rubber Co., 277 F. Supp. 484 (S.D.N.Y. 1967) held that there was no unlawful restraint in a license granting the use of a patented process to make hobby horses while denying this mode of use to others.

The Court below did not discuss the cases cited by either Buffalo Forge or Burgess on the question of validity of field of use licenses. Three of the cases cited by Burgess have already been shown not pertinent - Adams v. Burke, Univis, and General Electric. Burgess cited only two cases which lend support to its contention, both of which are clearly contrary to General Talking Pictures and the great weight of authority, to wit United States v. The Consolidated Car-Heating Co., Inc., 1950 Trade Cases ¶62,655 (S.D.N.Y. 1950) and Hensley Equipment Company v. Esco Corp., 383 F.2d 252 (5th Cir. 1967). In The Consolidated Car-Heating Co. case, the court stated, with respect to a patent license provision granting the right to make dentures with a patented metal alloy, to use the alloy and sell it:

"But he [the patentee] may not grant a license to use his patented product which can be purchased only from him, in manufacturing another product whether patented or not, and provide that it shall be used only to manufacture that product."

This conclusion was erroneous and misinterprets General Talking Pictures. One explanation may be that at the time the motion for summary judgment was made, the challenged license provision was no longer in use. In fact, the defendant argued that the case was moot at the time the

motion was argued (at p. 63,904). Presumably, there was no attempt by the defendant to seek to have the abandoned license provision upheld.

In any event, the Court fell into error relying on the Univis case holding, as did Motorola in the Armstrong v. Motorola, Inc. case, supra. The subsequent cases of Deering, Milliken & Co. v. Temp-Resisto Corp., supra, and Barr Rubber Products v. Sun Rubber Co., supra, also decided in this district, demonstrate that the case is weak as precedent in support of the Burgess contention.

The Fifth Circuit similarly fell into error in Hensley Equipment Company v. Esco Corp., supra. In that case, there was what may be considered a field of use license limiting the use or sale of the licensed patented product to the field of use encompassed by Caterpillar's OEM products and replacement parts. The Court similarly relied on the Univis case, supra, and its predecessors and also United States v. Arnold Schwinn & Co., 388 U.S. 365 (1967).

But the Supreme Court in the Schwinn case stated:

"If the manufacturer parts with dominion over his product or transfers risk of loss to another. He may not reserve control over its destiny or the conditions of its resale.⁶"

In the referenced footnote, the Court expressly stated:

"We have no occasion here to consider whether a patentee has any greater rights in this respect...."

(2) The Exclusive Field of Use Granted
by Munters to Buffalo Forge was Valid.

A "field of use" restriction usually refers to a restriction in a license agreement such as a limitation on the purpose for which a patented invention might be used. The limitation is on the licensee or the purchaser from the licensee. The license from Munters contains no restriction on Buffalo Forge or on any purchaser from Buffalo Forge. In every exclusive patent license, the licensor transfers to the licensee part of the rights granted to the licensor by the patent laws. Munters had the sole right to manufacture the patented fill, and the sole right to use it in any of the various uses for which it was suitable. All it did was grant to Buffalo Forge the exclusive right to use Munters media in the very limited "product use area" - evaporative coolers in gas turbine applications (App. 14).

Munters decided to engage in the business of manufacturing the patented fill, and not to engage in the business of using the fill as a material in other products. As a matter of policy, Munters gave a free license to any purchaser to use the patented fill in any manner it wished, except for two very limited fields. In granting limited licenses in these two fields, Munters exercised its right under the patent laws to obtain the benefits and rewards from its inventions in the manner it believed would be most rewarding to it. (App. 87, 89)

The Buffalo Forge license does not contain any

"restrictions" in the sense that term is used in patent licenses. The only "restriction" was against the patentee, as it granted to Buffalo Forge the exclusive right to use Munters fill in evaporative cooling applications in the very limited field of gas turbines having a minimum rated capacity of at least 500 horsepower.

Since the patent law gave Munters the exclusive right to manufacture the fill, Munters had the exclusive right to use it. Burgess is not contesting the right of Munters to license the "use" of its fill. In fact, Burgess cites the statement in Munters' price list as granting Burgess the "free license" to use the fill in any manner it chooses. Since the Buffalo license is against Burgess' interest, it wishes to eliminate from the patent laws, any patent owner's right to grant an exclusive "use" license.

The license agreement required Buffalo to establish the use of Munters fill as a competitive product within a specific period of time. (Art. II, ¶1) The agreement is dated October 6, 1972, and provided it would not become effective until January 1, 1974, unless Buffalo succeeded prior to that date. (Art. II, ¶4) (App. 14-15)

The purpose of this license agreement was pro-competitive - not restrictive. The grant of this license served the very purpose for which the patent laws were created - to encourage development of new products. The owners of the patents, who also manufactured the patented

product Munters fill, had no knowledge that it might be useful in evaporative cooler applications for gas turbines. (App. 89)

It is a matter of great concern to every manufacturer that any new design or new product can be freely copied by competitors, except in the rare case where there is a patent or possibly a copyright involved. Every manufacturer which makes an investment to design a new product runs the risk that its competitors will copy the product and render the investment worthless. Here there happened to be a product patent. Here was the opportunity to make an investment in developing a new product with some hope of recouping it. Buffalo still took the risk that it might not succeed from the technical standpoint, or that the result might not be commercially acceptable to prospective customers. (App. 75, 141, 142)

It was a reasonable and lawful use of the patent to grant this limited license to encourage Buffalo to spend over \$128,000.00 to develop the new product. (App. 77) The offer of Buffalo to use its finances, technological resources and marketing experience to attempt to develop a new product is exactly what the patent law is intended to encourage. The record shows that if Buffalo had not developed an evaporative cooler to use Munters fill, there would be none. (App. 89) Certainly Burges would not do it. Burgess had no research facility, and simply sat back and let Buffalo do all the work and risk its money. (Yaeger 24, 28, 33, 112)

At the time Munters granted the license to Buffalo (October, 1972) Munters fill was not used by any manufacturer of evaporative coolers anywhere in the United States. The agreement did not restrain competition between Buffalo and Burgess, or between Buffalo and anyone else. The agreement enhanced and promoted competition. At that time Buffalo and Burgess were offering to customers substantially the same type of evaporative coolers, using the same materials available to anyone. (App. 68, 79; Yaeger 17, 18, 19, 33, 37, 60 101) Munters fill was also available to both. In 1971 Burgess looked at Munters fill but made no effort to do anything with it. The reason is clear. It could not be simply substituted for any of the materials Burgess was using. Nor could Buffalo simply substitute it in the types and designs of coolers it was making. Much more was required and Buffalo was willing to give "that much more" to develop a better cooler. (App. 66, 67, 77-79) That is what the patent laws are all about. And that is what competition is all about.

The goal of competition is to encourage each manufacturer to "build a better mousetrap" and win out over its competitors by achieving customer acceptance. It is intended that some competitors will lose out. Similarly, the patent laws expect that a new invention will produce a new and superior product, and that those manufacturers who make the product which loses favor with customers will lose out.

Buffalo has not obtained nearly as large a reward as it is entitled to. It developed a new evaporative cooler

which it used in industrial applications as well as with gas turbines. After Buffalo succeeded in developing this new cooler and obtained customer acceptance, Burgess took advantage of Buffalo's efforts and investment and obtained a "free ride."

When Burgess' customers informed Burgess that they were interested in Buffalo's Munter fill cooler, Burgess simply copied Buffalo's design. It even had help from Munters. (Yaeger 24, 28, 33: BF 9, 11, 12, 20, 31, 37, 38, 40, 41, 45) Buffalo's exclusive grant was limited to only one of the various uses of the coolers - i.e., with gas turbines. Munters not only give Burgess a free license, but made available technology gained from its working with Buffalo. Without this assistance from Munters, which passed on to Burgess much of Buffalo's development work, Burgess would never have made a cooler with Munters fill.

IX

ALL POST-SALE RESTRICTIONS DO NOT
VIOLATE THE ANTITRUST LAWS

While the right of Munters to grant the exclusive license to Buffalo is sanctioned by Court decisions under the patent law, Burgess attempts to side-step this fact and simply cites cases involving a "concerted refusal to deal." There is no factual basis for the contention that there was "concerted action." The action is unilateral - Munters declining to sell the Munters fill to Burgess for the use which it has granted to Buffalo. Munters has sold to Burgess all the fill it has ordered for any use Burgess desired, including evaporative coolers, with the one exception. (Yaeger 22, 66, 68, 146, App. 149)

Even though the license needs no further defense, Buffalo will demonstrate that the consequent result of Munters declining to sell fill to Burgess for coolers used with gas turbines was reasonable and not in violation of the antitrust laws.

When Buffalo Forge first experimented with Munters fill in 1971 it was not used in evaporative cooler gas turbine applications anywhere in the world. Buffalo Forge proposed to Munters to develop an entirely new market not previously available to Munters. (App. 89A) There was no market to "restrain" or "monopolize." It took Buffalo Forge from April 1971 to mid-1973 to develop a new evaporative cooler which its customers would accept. Buffalo Forge

conducted seminars for customers from July 1972 through April, 1974 to convince them of this new product's technical and economic benefits. (App. 67) Development of this product required technical cooperation between Munters and Buffalo Forge which resulted in the issuance of a joint patent to them. (App. 90)

Burgess showed no interest in this new product until 1973 after its customers had called to its attention this new competitive Buffalo Forge evaporative cooler. The first term of the license to Buffalo Forge expired on December 31, 1973, and was renewed for a second period of two years. Up till that time Burgess had not purchased any Munters fill for any purpose - restricted or non-restricted. The first purchase by Burgess of Munters fill was in January, 1974. (BF-6, Yaeger 9, 21, 89) It is impossible to hold that the license restrained trade during the first term as there were no competitors interested in purchasing the fill.

When Burgess did finally get into this market, it was by complying with a customer's request to make an evaporative cooler identical to one using Munters fill proposed by Buffalo Forge for a General Motors plant. This was for an industrial use, and both Burgess and Buffalo Forge had non-exclusive licenses in this area. Even though Buffalo Forge developed this new type evaporative cooler, Burgess was free to copy it - and did. (BF-38, BF-37, BF-40, BF-41, Yaeger 22, 149-156)

There was competition between Buffalo Forge and

Burgess for this job. A memorandum from Bert to Yaeger dated November 21, 1973 states that Buffalo reduced its price to Binks, and that Burgess then reduced its price. Burgess obtained the order, but did not manufacture the coolers itself. It subcontracted the complete manufacture to James A. Nelson Co. Inc., a sheet metal and plumbing shop in San Francisco. All Burgess did was to furnish drawings, and the Munters fill and distribution pads. (BF-40, 41, Yaeger 149-156)

In considering whether an agreement is an unreasonable restraint of trade or conspiracy or attempt to monopolize, a court must consider the nature of the market and the effect on competition. The evaporative cooler business for use with gas turbines is a small part of the business of both companies. For competitive reasons neither party submitted its figures of evaporative cooler sales during discovery. However, the lack of significant financial impact on Burgess of this particular market can be shown. The evaporative coolers were manufactured and sold by the Burgess Environmental Group division, whose principal products include: industrial silencing equipment, industrial vibration and acoustical pulsation control equipment, equipment for removal of particulate matter from air and gas streams, including separation, scrubbing, filtration and dust collection devices, and air-cleaning and conditioning and control systems. (BF-1 pp. 4-5)

Burgess had a backlog of orders for all products

in the Environmental Division of \$2,851,900 for the fiscal year ending September 30, 1974. Its net sales for all products in fiscal 1974 were over \$35,000,000, and in 1975 over \$42,000,000. (BF-4, p. 5)

Munters fill is not a "shelf" item which can be used by anybody. It must be put into another product, and perform certain physical functions to provide the customer with its requirements. Munters had the right to unilaterally select its own customers, and sell or not sell to Burgess. Since the exclusive grant to Buffalo was for the sole purpose of developing a new product and a new market, the agreement was valid, even without a patent.

The case of United States v. Arnold, Schwinn & Co. 388 U.S. 365 (1967) is sometimes cited for the proposition that a manufacturer parts with dominion over his product when he sells it, and has no control of its disposition. That was not a patent case, it was a case in which there were restrictions as to territories where Schwinn distributors could sell bicycles that they purchased from the manufacturer. The Supreme Court specifically stated in a footnote that it was not ruling on whether or not that doctrine would apply to patented as well as unpatented materials. (Ftnt. 6, p. 389)

The Schwinn case has been sometimes cited for the proposition that all restraints on a customer with respect to a product are unlawful. This contention reads too much into the Schwinn opinion. Justice Fortas, after discussing the reasons why the territorial restrictions were invalid stated:

"At the other extreme a manufacturer of a product other and equivalent brands of which are readily available in the market may select his customers, and for this purpose he may 'franchise' certain dealers to whom, alone, he will sell his goods." Cf. U.S. v. Colgate

"If the restraint stops at that point - if nothing more is involved than vertical 'confinement of the manufacturer's own sales of the merchandise to selected dealers, and if competitive products are readily available to others, the restriction, on these facts alone, would not violate the Sherman Act." (p. 376)

It should be noted that Justice Fortas referred to U.S. v. Colgate, 250 U.S. 300 (1919) which stands for the principle that a vendor has the right to select his customers, disregarding the continued efforts of the Department of Justice to have that decision overruled.

In Tripoli Co. v. Wella Corp. 425 F.2d 932, (3d Cir. 1970) cert. den. 400 U.S. 831 (1971) the Third Circuit en banc distinguished Schwinn and held lawful a postsale restriction that a wholesaler could not sell at retail. The Court limited Schwinn to its facts, which concerned a territorial restriction, and relied upon the rule of reason test, holding that a manufacturer under certain circumstances can control the disposition of the products sold, even though he has parted with title. The Tripoli case was not concerned with patented products, but related to the distribution of barbershop and beauty shop supplies and the court felt that for public safety reasons it was reasonable that the manufacturer in that case restrict resales of the products to professional beauticians and barbers even though title had passed to the wholesaler.

In Tampa Electric Company v. Nashville Coal Company et al. 365 U.S. 320 (1961), 5 L.Ed. 2d 580, 81 S.Ct. 623, a contract by which a utility purchased from a producer of coal all the coal required by the utility for a specified use for twenty years was alleged to violate the antitrust laws. The Court stated that even though a contract is found to be an exclusive dealing arrangement, it does not violate the Clayton Act unless the court believes it is probable that performance of the contract will foreclose competition in a substantial share of the line of commerce affected.

While the Tampa case was the reverse of the instant case, the principles apply. It was reasonable for Buffalo to ask for a requirements contract so that it could be assured of a supply of the product. And it was reasonable for Munters to grant a limited exclusive license for a short period of time to encourage Buffalo to develop the market.

There is no room for any contention that there are not products available to Burgess which are competitive with Munters fill. The license agreement itself specifically states that its sole purpose is to enable to develop "the use of Munters fill as a new competitive product in the Product Use Area." (2nd Whereas clause). The agreement also indicates the availability of competitive products in Article IV, paragraph 1 which provides that Buffalo will use Munters fill "except when its customers desire other types of fill to be used." (App. 12-15)

In drafting the agreement Buffalo advised Munters that while Buffalo intended to promote Munters fill, it believed there were some applications when other products would still be preferable to Munters fill. (BF-50)

The complaint of Burgess that some customers have been persuaded by Buffalo of the advantages of Munters fill, and they prefer such coolers, does not mean there are not competitive products available. The record shows that Buffalo is offering for sale the same types of coolers which it sold before it developed Munters fill. (App. 68, 69, 79-81) Burgess has acknowledged that the other type coolers it makes are still sold. As recently as July, 1975 Burgess quoted as alternate coolers for a gas turbine the choice of the polyurethane foam it had previously used, and Munters fill. (BF-36)

X

EVEN IF THE PRELIMINARY INJUNCTION
IS NOT VACATED THE PROVISION OF
THE ORDER LIMITING THE SECURITY
TO \$25,000 SHOULD BE MODIFIED

In the decision of January 19, 1976, the District Court concluded:

"Accordingly, an injunction will issue pendente lite upon the posting of a bond in the sum of \$25,000 by defendant Burgess Industries, Inc. to secure the payment of such costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined." (App. 103)

It is not apparent from the decision what specific factors the Court below relied upon in fixing this amount of security. There was no evidence submitted at the hearing with respect to the amount of damages likely to be suffered by Buffalo Forge and which are ascertainable or as to any portion of the damages which might be suffered by Buffalo Forge but not likely to be readily ascertainable - by reason of the issuance of the injunction pendente lite.

The \$25,000 security is inadequate. There is nothing in the District Court's opinion to indicate the basis for the conclusion that \$25,000 would be adequate security for any damages caused Buffalo Forge by the injunction. Burgess claimed in the Yaeger affidavit that it expected to complete orders for \$1,000,000 in coolers in 1976, orders it would not receive absent the injunction. The District Court has given Burgess the right to take this business away from Buffalo Forge, which will cause damage to Buffalo Forge in the amount of \$440,000.

If the injunction continues into 1977, the damages will increase.
(App. 127)

There is an additional factor which must be considered by the Court in determining whether the amount of security should be increased. Counsel for Burgess apparently considers the Court's order fixing security at the very small sum of \$25,000 a partial victory for Burgess which will survive even if Buffalo Forge's position is ultimately upheld. Burgess' counsel is of the opinion that no matter how long the preliminary injunction is in effect, and no matter whether Buffalo Forge should satisfy the Court that it has been damaged to the extent of \$500,000 or \$1,000,000, the District Court cannot award Buffalo Forge more than \$25,000, the amount of the security.
(App. 119)

Frankly, this is a point which Buffalo Forge counsel had not researched, and the Court's opinion justifies counsel's doubts that the Court focused on this possible limitation of damages. While there is little authority on the subject, there is some support for Burgess' position. See First-Citizens Bank & Trust Co., v. Camp, 432 F.2d 481 (4th Cir. 1970) and cases cited therein.

If the bond is not increased, it is clear that the damages to Buffalo Forge will exceed the amount of the present bond. It would be most inequitable to have Buffalo Forge's damages limited to the \$25,000 bond, where as here it is clear that as time goes on, the damages are going to substantially exceed that amount.

The best way to assure fairness to both Burgess and Buffalo Forge is to provide for periodic increases in the amount of security to be provided. Justification for these terms in an order is found in 7 Moore's Federal Practices ¶65.09, where he states:

"Bearing in mind the purpose of security, the amount of security is to be determined by the trial court in the exercise of sound discretion. Necessarily, if a restraining order is granted at the beginning of an action, the amount of security adequate for a defendant's protection is a matter of estimate in light of the circumstances of the case and the fact that the duration of the restraining order is limited in time; even at the preliminary injunction stage the amount remains an estimate; although at this point the development of the case and the court's decision to grant a preliminary injunction probably make the estimate less conjectural, even though the preliminary injunction has no fixed time limit to run. And so long as the restraint or injunction continues a party may move the court to increase or reduce the amount of security."

Burgess has already accepted orders totalling close to \$230,000. If its estimate is correct, it will complete orders totalling \$1,000,000 in 1976. Based upon that estimate it would be appropriate to request now an increase in the security to \$440,000, the amount Buffalo Forge has calculated as its damage on this volume of sales. (Jorgensen 2d ¶14) (App. 127)

Since Burgess may not sell as many coolers as anticipated, the order could provide for periodic increases in the security, so that the security increases as the damages are shown to have increased.

For each contract that may be awarded to Burgess Industries which would have been awarded to Buffalo Forge during

the period of injunction, Buffalo Forge's profit is not readily ascertainable. However, the profit of Burgess Industries is ascertainable from Burgess' own records.

If the stay is denied, Buffalo Forge requests that this Court order Burgess throughout the pendency of this injunction to notify it of all contracts that it may receive which employ Munters Fill in the area of exclusivity, and to provide the attorneys of Buffalo Forge with the opportunity to review under appropriate safeguards of confidentiality all internal documents of Burgess relating to Burgess' profit calculations for each such contract.

Through the use of such procedure, Buffalo Forge may periodically move the Court below to increase the amount of security to reflect the amount of profit lost to Buffalo Forge until there is a plenary decision on the merits of this case.

Buffalo Forge also moved by the Order to Show Cause, dated February 26, 1976, to require that an Order be entered to this effect. The motion was denied on March 23, 1976 at the conclusion of the trial.

This issue is raised now since an expedited decision will be necessary to ensure that if there ultimately is a final decision favorable to Buffalo Forge - the damages to Buffalo Forge by reason of the preliminary injunction - will be recoverable by Buffalo Forge in this proceeding.

XI

CONCLUSION

Based upon the foregoing, the Order of the District Court should be reversed, and the preliminary injunction vacated.

Respectfully submitted,

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